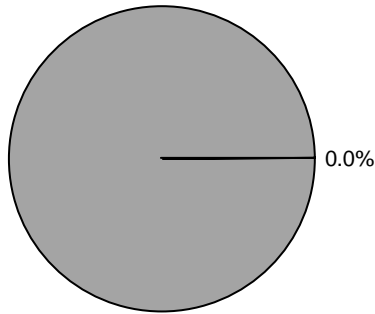


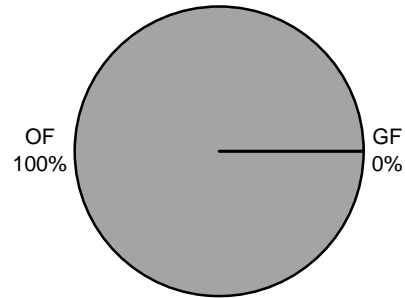
FY2007 Budget Briefing

State Investment Council

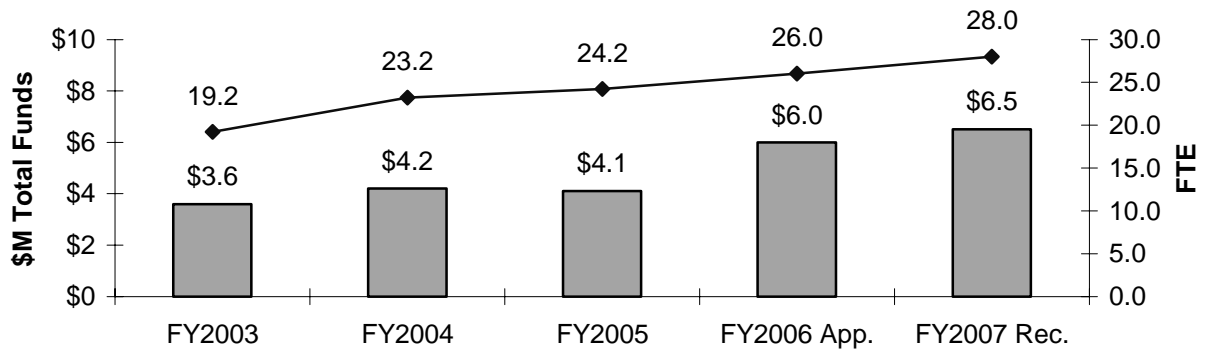
Agency's Share of Total
Budgeted State General Fund FY2007



Agency's Funding Source Split FY 2007



Budget History



Key Responsibilities

The State Investment Council manages the investments for the South Dakota Retirement System, the South Dakota Cement Plant Retirement Fund, the cash flow fund, the School and Public Lands Fund, the Dakota Cement Trust, the Health Care Trust Fund, and the Education Enhancement Trust Fund. The council also oversees the Higher Education Savings Plan.

Investment Council

The State Investment Council, authorized by SDCL 4-5-12 to 4-5-39, inclusive, is composed of eight members, five of whom are appointed by the Executive Board of the Legislative Research Council. The remaining three members are the State Treasurer, the Commissioner of School and Public Lands, and a representative of the state retirement system. The council appoints the state investment officer and formulates investment policy pertaining to the kinds and the methods of investment.

The agency is funded primarily from the interest and investment earnings derived from the managed funds. For FY2007, the agency requests \$6,520,633 from other funds and 28.0 FTEs. This is an increase of \$545,764 (9.1%) from FY2006. The Governor recommends \$6,532,980 and 28.0 FTEs. This is an increase of \$558,111 (9.3%) from FY2006 and an increase of \$12,347 (0.2%) the agency's request.

Item	Actual FY2005	Approved FY2006	Agency Req. FY2007	Gov. Rec. FY2007	Change from FY2006	% Change from FY2006
Personal Services	3,006,655	4,548,293	5,060,703	5,073,050	524,757	11.5%
Travel	44,642	60,000	80,000	80,000	20,000	33.3%
Contractual Services	951,376	1,315,203	1,326,282	1,326,282	11,079	0.8%
Supplies and Materials	12,472	14,148	14,148	14,148	-	0.0%
Capital Outlay	47,519	37,225	39,500	39,500	2,275	6.1%
TOTAL	4,062,664	5,974,869	6,520,633	6,532,980	558,111	9.3%
Funding Sources:						
Other Funds	4,062,664	5,974,869	6,520,633	6,532,980	558,111	9.3%
FTE	24.2	26.0	28.0	28.0	2.0	7.7%

The Governor's recommendation throughout this analysis also includes funding for Performance And Compensation Equity (PACE) movement of 2.5% for those employees who are paid under the job-worth of their pay range, a 3% across-the-board increase for all permanent employees, and an increase in the employer paid portion of the state health insurance plan. The recommended amounts for each segment of the compensation package are as follows:

	General Funds	Federal Funds	Other Funds	Total
2.5% PACE Movement	-	-	-	-
3% Across-the-Board	-	-	3,544	3,544
Health Insurance	-	-	8,803	8,803
Total	-	-	12,347	12,347

Revenues

	<u>Actual</u> <u>FY2004</u>	<u>Actual</u> <u>FY2005</u>	<u>FY2006</u> <u>Estm.</u>	<u>FY2007</u> <u>Estm.</u>	<u>% Change</u> <u>Over</u> <u>FY2004</u>
Management Fees					
Retirement System	\$ 3,303,537	\$ 3,297,868	\$ 3,363,004	\$ 5,013,210	51.8%
Cement Plant	22,036	23,023	22,371	32,553	47.7%
Cash Flow Fund	504,868	492,496	476,844	709,662	40.6%
School and Public Lands	103,140	92,166	89,320	136,724	32.6%
Dakota Cement Trust	174,912	155,733	147,845	221,363	26.6%
Education Enhancement Trust Fund	208,503	225,482	212,404	319,022	53.0%
Health Care Trust Fund	57,619	55,039	52,213	78,128	35.6%
Total	\$ 4,374,615	\$ 4,341,807	\$ 4,364,001	\$ 6,510,662	48.8%

Selected Performance Indicators

	<u>ACTUAL</u> <u>FY2004</u>	<u>ACTUAL</u> <u>FY2005</u>	<u>ESTIMATED</u> <u>FY2006</u>	<u>ESTIMATED</u> <u>FY2007</u>
SDRS Year-End Assets (millions)	\$5,486	\$6,147		
SDRS Investment Income (millions)	\$786	\$727		
SDRS Total Fund Return	16.6%	13.3%		
SDRS Capital Market Benchmark	15.5%	9.6%		
SDRS Russell / Mellon Corp. Universe	16.9%	10.2%		
CFF Average Amount Invested (millions)	\$807.3	\$821.7		
CFF Investment Income (millions)	\$23.4	\$22.1		
CFF Average Yield / Benchmark Yield	2.93% / 0.958%	2.88% / 2.08%		
S&PL Yr-End Assets / Invest Income (millions)	\$146.7 / \$10.0	\$157.8 / \$12.1		
S&PL Total Fund Return / Benchmark Return	7.1% / 8.8%	8.2% / 8.1%		
DCTF Yr-End Assets / Invest Income (millions)	\$240.7 / \$18.5	\$254.4 / \$26.6		
DCTF Total Fund Return / Benchmark Return	8.0% / 8.7%	11.1% / 11.4%		
EETF Yr-End Assets / Invest Income (millions)	\$361.8 / \$22.4	\$378.7 / \$31.8		
EETF Total Fund Return / Benchmark Return	6.7% / 9.0%	9.2% / 10.2%		
HCTF Yr-End Assets / Invest Income (millions)	\$88.9 / \$6.1	\$93.3 / \$7.7		
HCTF Total Fund Return / Benchmark Return	7.4% / 9.0%	9.1% / 10.5%		

Major Expansion and Reduction

Budget Item	Agency Request			Governor's Recommendation		
	State General Fund	All Funds	FTE	State General Fund	All Funds	FTE
A. Base Salary Adjustments	-	126,424	0.0	-	126,424	0.0
B. Investment Incentive	-	281,194	0.0	-	281,194	0.0
C. Research Assistants	-	82,248	2.0	-	82,248	2.0
D. Travel	-	20,000	0.0	-	20,000	0.0
TOTAL	-	509,866	2.0	-	509,866	2.0

A. Base Salary Adjustments. The agency requests an additional \$126,424 from other funds for a base salary adjustment; the base salaries would then total \$2,499,358. According to the agency, senior level positions would increase between 4.8% and 8.5%, compared to the current FY2006 salaries. Sector portfolio managers are planned to increase by 7%. Middle and junior level positions are scheduled to increase between 10% and 15%. Support staff positions will increase by 3%. The Governor concurs.

B. Investment Incentive. The agency requests an additional \$281,194 from other funds for investment incentives. The incentive total would then be \$1,806,064 which is equivalent to the current FY2006 base salary for qualified positions. The average incentive earned, across all eligible positions, is between 45% and 60%. The incentive plan was approved by the Investment Council and the Executive Board of the Legislative Research Council in 1982, 1997, and 2000. It is annually reviewed by both entities. The Governor concurs.

C. Research Assistants. The agency requests \$82,248 from other funds and 2.0 FTEs for High Yield Research Assistants; this amount excludes benefits. According to the agency, these new positions will apply the agency's new intensive research process to the high yield area. Currently, this area is partially covered by the existing fixed income team. The Governor concurs.

D. Travel. The agency requests \$80,000 for travel; this is an increase of \$20,000 (33.3%) from FY2006. According to the agency, this will allow for 15 additional out of state trips by investment staff to personally interact with business and investment executives at conferences and meetings. The agency estimates that the average trip will cost \$1,333. The Governor concurs.

Other Departmental Issues

A. Interim Appropriation Actions

No interim appropriation actions were taken.